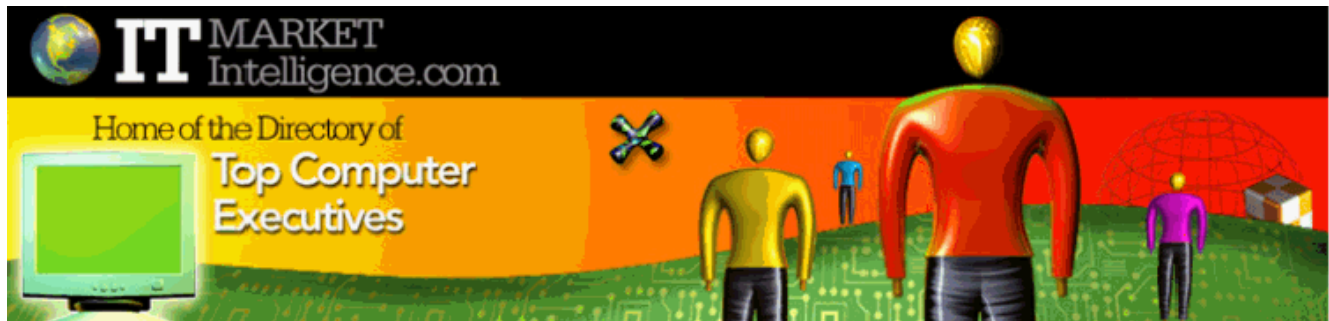


Storage Marketing: Identifying More Productive Target Markets

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Introduction

Before we tackle the storage market specifically, a brief note on market identification for the information technology market in general needs to be mentioned: One of the most common approaches to market segmentation for IT related products is organization size. Although adequate in some cases, organization size is a poor indicator of IT adoption and deployment. Information technology spending is not just a function of gross revenue or total employment, but rather a combination of factors including vertical market and organization culture.

For example: A \$1 billion manufacturing company will spend, on average, about \$20 million on IT. A \$1 billion financial service's organization will spend, on average, about \$80 million on IT. This illustrates the fact that a certain amount of revenue or number of employees does not have a direct correlation to the overall amount of IT adoption or deployment. For this reason, it is important to approach market segmentation exercises from an IT size perspective.

Determining target markets for storage and related products has an additional level of complexity to deal with: Storage requirements are a complex combination of raw space needs coupled with storage management practices and standards, application domains supported, and regulatory compliance issues. Two organizations with the exact same demographic characteristics can use storage in vastly different ways.

“Two organizations with the exact same demographic characteristics can use storage in vastly different ways”

Given these characteristics of the storage market, and the fact that there is not a data source that accurately and consistently tracks the amount of storage in client accounts, marketers must do the best they can to estimate storage requirements.

This report covers some basic techniques that can help identify and target storage markets. This is not to suggest there is an easy way to overcome the inherent complexities of the storage market, but rather a more thoughtful approach can yield a better targeted market and therefore, more productive sales results.

The two most common approaches to identify market segments for storage related products are price point and basic IT size characteristics. Both approaches are intended to establish a baseline target demographic characteristic from which a more comprehensive demographic profile can be created. Further discussion in this report covers the potential use of vertical markets and some notes on the types of storage contacts that are available in the market.

Market Segmentation by Price Point

In many cases marketing campaigns or promotions are designed to target an audience that can *afford* a particular price. This approach is meant to convert a *target price point* to its *target market demographic characteristics*. The formula is very simple:

$$\text{Target IT Budget} = \text{Annualized Storage Expense} / \% \text{ of IT Budget Devoted to Storage}$$

This formula is used to calculate the annual IT budget required to support a particular annual storage expense. From this result we can then calculate the various demographic characteristics statistically consistent with the resulting IT budget. The end goal is to identify which organizations can afford a solution at your target price point.

Annual Expense is the actual amount expensed each year on a potential client's IT expense budget. If the sale is small enough to be expensed in the acquisition year, then this amount is the Annual Expense. If, for example, the target price point is \$150,000, this would likely be capitalized and depreciated. Assuming a three-year accelerated depreciation schedule, the annual depreciation expense would be \$50,000, and would be the Annual Expense used in the formula.

The price point you use can either be your *Entry Level Price Point*, which is the lowest sale amount you would like to promote, or the *Target Price Point*, which may be quite a bit higher. This decision is a function of the scope and budget for the campaign or project you intend to execute.

Percent of IT Budget Devoted to Storage is simply that. For this example we'll use a conservative estimate of 8%, based on unpublished anecdotal evidence. This is to suggest that the average amount of IT expense budget annually devoted to storage is 8%. Some organizations will spend a little less, while others will spend much more. Adjust this storage budget number at your discretion.

Target IT Budget can now be calculated using the example numbers mentioned above:

$$\text{Annual IT Budget} = \$50,000 / .08 = \$625,000$$

The annual IT budget can now be used to develop a demographic profile that specifies IT size demographic characteristics statistically equivalent with a \$625,000 IT budget. In this case, the demographic characteristics would include organizations with 3+ IT employees or 100 or more PCs. How these numbers are determined, as well as other demographic characteristics, is covered in a more detailed tutorial on market segmentation, *Understanding Information Technology Demographics*, which is available at www.itmarketintelligence.com/mo-reports.htm/ACR-IT-Market-Segmentation-Intro.pdf.

This is a simple approach to establish some general guidelines for market segmentation. The results should be combined with your knowledge of the industry and target customer profile then make adjustments to the demographic profile to fit your own needs.

Storage Market Identification Using IT Related Size Characteristics

Many storage marketers would like to sell to markets based on the amount of storage the target accounts currently have. This section discusses how IT-related size characteristics can be used to identify those markets. It is important to also consider how vertical markets can add an additional level of market targeting, which is discussed in a later section of this report.

Storage Market Identification Using a Customer-Related IT Size Proxy

This approach simply identifies a consistent demographic characteristic shared by some favorable portion of your client base, which can be used as a baseline size target. For example, from an examination of your ten best clients you may discover that they are all supporting 500 or more PCs. This is an easy number to target

and readily available in market databases. From this number you can also calculate other statistically equivalent demographic characteristics that can be incorporated into the demographic profile to assure the most complete market coverage.

Once again, this is not to suggest that all organizations with 500 or more end-users will use storage in similar ways. It is simply a best effort proxy in light of the fact that storage specific size data is not available from most marketing data sources.

Number of PCs or number of IT employees are the most optimal demographic characteristics to use. They provide the most direct correlation to IT requirements and are both reasonably available from marketing data sources. Total employees and gross revenue are rather poor IT size indicators, especially for something as technical as storage.

Storage Market Identification Using Average Amount of Storage

Many storage marketers would like to sell to markets based on the amount of storage that target accounts currently have. This type of data is not available from most marketing data sources, but industry statistics can be used to identify storage markets based on the average amount of storage in use.

The table on the following page shows the average amount of storage managed based on ACR survey research. While it reveals the average amount of storage being managed based on two size characteristics, it does not highlight differences based on vertical market. However, because the data is based on IT specific size characteristics the vertical market is less of a factor, compared to using total employees where vertical market would be much more important. The data can be used to set minimum or maximum size limits. For example, the data shows:

- *Approximately 80% of organizations with 20 or more IT employees or 500 or more PCs are managing 5 or more TB of storage.*
- *Approximately 80% of organizations with 60 or more IT employees or 1500 or more PCs are managing 10 or more TB of storage.*

Hence, if you are targeting organizations managing 5 or more TB of data you might set the minimum size at 20 or more IT employees or 500 or more deployed PCs.

The data also reveals that the percent of organizations managing very large volumes of data is rather small.

- *Approximately 21% of organizations with 60-99 IT employees are managing 100 or more TB of storage.*
- *Approximately 38% of organizations with 100-199 IT employees are managing 100 or more TB of storage.*
- *For organizations with 200+ IT employees there is not enough data to report.*

If your primary target market is organizations with 100 or more TB of storage, using IT organization size alone is not going to be an accurate way to target that market.

Size of Storage Market by IT Organization size

To put a little perspective on the size of the U.S. market ACR estimates there are:

- 12,000 IT department locations with 20+ IT employees.
- 8,100 IT department locations with 40+ IT employees.
- 5,500 IT department locations with 60+ IT employees.
- 4,000 IT department locations with 90+ IT employees.
- 3,400 IT department locations with 120+ IT employees.

Source: *Directory of Top Computer Executives* database. Counts are for U.S. sites only and are not mutually exclusive. Counts calculated using IT employment numbers or similar size characteristics.

Amount of Data Storage Capacity Managed by the IT Department for Multiple Access Disk Systems By IT Employees and Deployed PCs

Excludes storage on End User Individual Devices

All Respondents in all Vertical Markets

IT Data Storage Capacity →	< 5 Terabytes	5-9 Terabytes	10-24 Terabytes	25-49 Terabytes	50-99 Terabytes	100-249 Terabytes	250-499 Terabytes	500-999 Terabytes	1 to 5 Petabytes	> 5 Petabytes	# In This Size Group
# of IT Employees ↓	%	%	%	%	%	%	%	%	%	%	
1 - 4	62.5	28.1	6.2	0	3.1	0	0	0	0	0	32
5 - 9	46.5	34.8	13.9	2.3	0	0	0	2.3	0	0	43
10 - 19	29.1	27.0	22.9	12.5	6.2	0	2.0	0	0	0	48
20 - 29	14.2	35.7	25.0	14.2	7.1	0	3.5	0	0	0	28
30 - 39	21.4	21.4	14.2	14.2	0	14.2	7.1	0	7.1	0	14
40 - 59	8.6	17.3	26.0	13.0	8.6	17.3	8.6	0	0	0	23
60 - 99	4.1	12.5	33.3	16.6	12.5	20.8	0	0	0	0	24
100 - 199	4.7	4.7	14.2	19.0	19.0	23.8	14.2	0	0	0	21
200 - 299	0	0	33.3	16.6	33.3	0	0	0	16.6	0	6
300 - 999999	0	0	12.5	0	0	12.5	25.0	25.0	12.5	12.5	8
IT Data Storage Capacity →	< 5 Terabytes	5-9 Terabytes	10-24 Terabytes	25-49 Terabytes	50-99 Terabytes	100-249 Terabytes	250-499 Terabytes	500-999 Terabytes	1 to 5 Petabytes	> 5 Petabytes	# In This Size Group
# of PCs ↓	%	%	%	%	%	%	%	%	%	%	
1 - 99	66.6	25.0	0	0	8.3	0	0	0	0	0	12
100 - 249	42.5	34.0	17.0	0	2.1	2.1	2.1	0	0	0	47
250 - 499	30.0	30.0	17.5	7.5	10.0	0	5.0	0	0	0	40
500 - 749	16.1	25.8	29.0	9.6	3.2	9.6	3.2	3.2	0	0	31
750 - 999	20.0	20.0	30.0	20	0	10.0	0	0	0	0	10
1000 - 1499	18.1	18.1	31.8	9.0	9.0	4.5	9.0	0	0	0	22
1500 - 2499	7.6	0	15.3	7.6	15.3	46.1	7.6	0	0	0	13
2500 - 4999	0	14.2	28.5	21.4	7.1	7.1	14.2	0	7.1	0	14
5000 - 999999	10.0	10.0	10.0	10.0	20.0	10.0	10.0	10.0	10.0	0	10

Source: *Inside IT Departments: Comparing Organization Size to IT Usage Characteristics*. Applied Computer Research, Inc., 2008.

Approximately 80% of organizations with 20 or more IT employees are managing 5 or more TB or storage.

Approximately 80% of organizations with 60 or more IT employees are managing 10 or more TB of storage.

Approximately 80% of organizations with 500 or more PCs are managing 5 or more TB of storage.

Approximately 80% or organizations with 1500 or more PCs are managing 10 or more TB of storage.

For information on TBs per storage manager, based on operating systems, visit www.metricsbasedassessments.com and look for Feature Metrics.

Adjust Size Characteristics by Vertical Market, Application Domain and/or Regulatory Compliance

There are three primary factors that seem to affect storage requirements: Vertical market, application domain and regulatory compliance issues. Once some basic size characteristics have been established, these additional characteristics can be used to adjust your demographic profile to more clearly define the target market.

Vertical market is a demographic characteristic that is available almost everywhere. Incorporating vertical market with size characteristics will provide the greatest benefit with the least amount of pain. Some vertical markets with a known need for larger than average storage needs are:

- Healthcare
- Finance
- Banking
- Insurance
- Aerospace/Defense
- Biotech and Medical
- Telecommunications

Example: Assume you have established that your target audience is organizations with 60 or more IT employees based on their average support of 10 or more TB of storage. Consider dividing the market into two groups. The first group would include the vertical markets listed above of large storage users. The second group includes everyone else. For the large storage users you might decide to target organizations with 40+ IT employees, and for the other group perhaps 80+ IT employees.

Application domain refers to the types of applications being run. Those applications that are particularly prevalent in a vertical market, like account transaction processing in banking or radiology image storage in healthcare, are covered if you are going to use vertical markets as a segmentation demographic.

There are application domains, however, that are not unique to a vertical market such as business intelligence, scientific research, or various modeling applications. A steel manufacturer in Pennsylvania may be using a comprehensive data warehouse system to collect and analyze manufacturing data, while their biggest competitor in Ohio has opted for a traditional approach using clipboards, pencils and calculators.

One possible proxy is the presence of particular software products like IBM Cognos or SAP Business Objects. Unfortunately, there are very limited sources of this type of data, and reasonably complete market coverage is very questionable where sources do exist. Nonetheless, many storage marketing programs simply need a starting point. Cautionary note: ACR recently evaluated a data source that covered users of specific software products. The data was captured from the web, and consequently most of the organizations on the list were VAR partners of the product maker or consultants.

Regulatory compliance requirements do not necessarily translate into big volume storage requirements. However, where regulatory compliance does make a difference is with regard to storage management policies and practices. Records retention/retrieval and eDiscovery are issues that must be addressed by many types of regulated organizations. Good storage management practices and products are a must.

Organizations subject to regulatory compliance can be identified by vertical market and/or by differentiating between types of organizations (ie. public, private, non-profit, government). Some regulated vertical markets are obvious like banking, finance, healthcare, etc. There are other regulated markets that are not so obvious like power generation and transmission, telecommunications, and airline transportation to name a few.

Perhaps the most important reason for considering application domain or regulatory compliance is developing a unique way to target a market with a sales message that resonates with that specific market.

Finding Storage Management Contacts

Finding target prospect organizations is the first requirement. The second is finding appropriate contacts in those organizations. A list of management level contacts (VP, director or manager) whose sole responsibility is managing storage would be a pot of gold at the end of a rainbow. Even a comprehensive list of storage administrators is elusive.

Although it seems counterintuitive based on the importance and growth of storage, the fact is that at the management level there simply are not many contacts available. Only in the biggest of the big storage user organizations will there be a storage management level contact.

At the technical level (ie. storage administrators), we know there are plenty of these folks in the market, but that contact data just isn't to be found. Technical contacts in any area of IT have always been a tough market to track. Frankly, there's just no money in it for database companies to try and track down technical contacts.

Both Jigsaw and Netprospex maintain large online databases with a lot of contact depth for large organizations. A simple keyword search for "storage" in contacts at the CXO/VP/Director/Manager levels comes up with 454 contacts in Jigsaw (about 25 million total contacts tracked) and 496 contacts in Netprospex (about 15 million total contacts tracked). This includes contacts at IT companies with storage in their titles as well as a handful of managers at self-storage facilities. This is not a barometer for the number of management contacts that are out there, but perhaps an indicator as to how elusive they are to find.

Storage marketers are generally targeting contacts with ultimate responsibility for storage. In some medium and most large IT shops it is the operations/data center group that has direct responsibility for storage management. At the lower end of the market, where operations may be a small group, the CIO/Director of IT will be the most commonly available contact and the place to start.



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